

***NEBRASKA PUBLIC EMPLOYEES***  
***RETIREMENT SYSTEMS***  
**SCHOOL RETIREMENT SYSTEM**  
**2004**

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Fifty-second Actuarial Report for  
State Fiscal Year Ending June 30, 2006  
and  
System Plan Year Beginning July 1, 2004

December 2004





**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

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November 22, 2004

Public Employees Retirement Board  
Nebraska Public Employees Retirement Systems  
Post Office Box 94816  
Lincoln, NE 68509

**Certification of Actuarial Valuation  
School Retirement System**

Ladies and Gentlemen:

This report summarizes the results of the actuarial valuation of the School Retirement System as of July 1, 2004, performed by Mellon Consultants, LLC.

The actuarial valuation is based on unaudited financial and member data provided to us by the Nebraska Public Employees Retirement Systems and summarized in this report. The benefits considered are those delineated in Nebraska State Statutes, effective as amended July 1, 2004.

All costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures. This report fully and fairly discloses the actuarial position of the plan.

An actuarial experience analysis was completed in parallel with the July 1, 2002, valuation. In our opinion, the assumptions represent reasonable expectations and our best estimate of the anticipated experience under the plan. A summary of the actuarial assumptions used in this actuarial valuation are shown in Exhibit 10.

Based on the results of our actuarial valuation, current statutory contributions are not sufficient to meet the plan's funding policy. The contributions paid by members, school employers, and the State defined by statute currently fall short of the actuarially required contribution, which is equal to the sum of the annual normal cost and the annual payment necessary to amortize any unfunded liabilities over 25 years. For the 2005-2006 fiscal year, an additional contribution in the amount of \$15,415,949 is necessary to meet the actuarially required contribution.

We are available to answer any questions on the material contained in this report, or to provide explanations to further details as may be appropriate.

Respectively submitted,

MELLON CONSULTANTS, LLC.

David H. Slishinsky, A.S.A., E.A., M.A.A.A.  
Principal and Consulting Actuary

Robert C. Ridge, A.S.A.  
Consultant, Actuary



**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**SUMMARY OF ACTUARIAL REPORT FOR CONTRIBUTION REQUIREMENTS AND  
FUNDED STATUS FOR PLAN YEAR 2004/2005**

The main purposes of this report are:

1. To determine the actuarial soundness of the School District and member contributions defined under Nebraska State Statutes to fund the total Formula Annuity, and whether additional contributions are required for the fiscal year ending June 30, 2006;
2. To review the current funded status of the System; and
3. To compare actual and expected experience under the plan during the plan year beginning July 1, 2003 and ending June 30, 2004.

The 2004 actuarial valuation is based upon the plan provisions as of July 1, 2004, as described in Exhibit 8. The actuarial methods and assumptions are described in Exhibit 9 and 10.

Highlights from the current valuation:

1. An additional State contribution is required for the 2005-2006 fiscal year to pay the normal cost and amortize any unfunded liabilities for the system. The present value of future Formula Annuity benefits is greater than the sum of the Actuarial Value of Assets and the present values of future member and employer contributions and State appropriations, resulting in a liability of \$384,751,860 in funding. This is an increase of \$232,288,088 over last year's liability of \$152,463,772.
2. A loss was experienced on the actuarial value of assets during the 2003/2004 plan year. The annual rate of return on Market Value was 14.6%. The rate of return on Actuarial Value of 3.0% fell short of the 8.0% assumed investment return rate by 5.0%, resulting in a decrease to the Actuarial Value by \$249,387,269.
3. The plan experienced a small decremental loss over the period, primarily due to more retirements and less withdrawals than expected. The actuarial accrued liability increased by \$4,006,631 as a result of decremental experience.
4. The funded status of the system as measured by the ratio of the system assets over the Pension Benefit Obligation (PBO) decreased, primarily due to asset and liability losses. The PBO is calculated using the Projected Unit Credit Method, which determines the benefit by using service at the valuation date and projecting salary to assumed termination or retirement. Since the July 1, 2003 actuarial valuation, the funded percentage on Actuarial Value decreased from 97.2% to 93.2%. This decrease was primarily due to withdrawal and asset losses.



**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**EXECUTIVE SUMMARY**

**Basic Actuarial Valuation Results**

The 2004 actuarial valuation results are based upon the plan provisions as of July 1, 2004 as described in Exhibit 8. The key findings of the actuarial valuation are summarized below.

**1. Funding of Total Formula Annuity**

The total actuarially required contribution is equal to the normal cost plus an amortization payment for unfunded liabilities. Unfunded liabilities created due to experience gains or losses, plan changes or assumption changes are amortized over 25 years.

The member contribution rate is a fixed rate equal to 7.25% of pay. The School District's funding of liabilities is equal to 101% of the employee contribution rate, or 7.32% of pay. The State contributes .7% of covered pay and an annual appropriation of \$5,639,235, as well as any additional required funding.

The minimum total required contribution rate increased from 15.26% to 16.97% of pay from the 2003/2004 plan year to the 2004/2005 plan year. A history of required contribution rates is shown below. For fiscal years 1995/1996 through 2002/2003, this contribution rate is the rate required to cover the excess formula annuity only. For fiscal years 2003/2004 and thereafter, this contribution rate is the rate required to cover the entire formula annuity.

<b>History of Required Contribution Rates and Additional State Funding</b>		
<b>Fiscal Year</b>	<b>Total</b>	<b>Additional State Contributions</b>
2005-2006	16.97%	\$ 15,415,949
2004-2005	15.26	0
2003-2004	13.45	0
2002-2003	11.98	0
2001-2002	9.15	0
2000-2001	11.92	0
1999-2000	5.69	0
1998-1999	8.86	0
1997-1998	13.94	0
1996-1997	14.53*	809,350
1995-1996	14.69*	4,413,418

\*Includes a 0.3% COLA contribution made to the School Employees Retirement System Reserve Fund.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**EXECUTIVE SUMMARY**

**1. Funding of Total Formula Annuity (cont'd)**

Based on the 2004 actuarial valuation, the total required contribution rate of 16.97% is above the actual contribution rate of 15.72%. For the current participant group, the present value of the additional funding needed is \$384,751,860. This amount is referenced as an actuarial liability on the plan's balance sheet.

**2. Asset Values**

The total assets of the system as of the current and prior valuation date at both market value and actuarial value, and the rate of return during the period is as follows:

	<b>July 1, 2003</b>	<b>July 1, 2004</b>	<b>Annual Rate of Return</b>
(a) Market value	\$ 4,282,041,339	\$ 4,918,013,255	14.6%
(b) Actuarial value, an adjusted value intended to reduce the effect of market fluctuations (Exhibit 1B)	\$ 4,952,902,870	\$ 5,118,011,165	3.0%

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**EXECUTIVE SUMMARY**

**3. Actuarial Liability/(Reserve)**

The actuarial liability of the total Formula Annuity benefits is the excess of the total benefit obligation (present value of future benefits) over the projected financial resources (sum of (i) the actuarial value of assets and (ii) the present value of future member, employer, State contributions and PPSF Appropriations). If the projected financial resources exceed the total benefit obligation, the system has a Reserve. The actuarial position of the system as of the current and prior valuation dates are as follows:

	<b>July 1, 2003</b>	<b>July 1, 2004</b>
(a) Present value of future benefits	\$ 6,477,524,160	\$ 6,910,423,098
(b) Net actuarial value of assets	4,952,902,870	5,118,011,165
(c) Present value of future member contributions	636,096,520	654,399,210
(d) Present value of future employer contributions	642,238,141	660,717,547
(e) Present value of future State contributions	61,416,216	63,183,372
(f) Present value of future PPSF contributions	<u>32,406,641</u>	<u>29,359,944</u>
(g) Actuarial Liability/(Reserve) (a) - (b) - (c) - (d) - (e) - (f)	\$ 152,463,772	\$ 384,751,860

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**4. Pension Benefit Obligation (PBO)**

The Pension Benefit Obligation represents a standardized disclosure measure of the present value of pension benefits payable in the future, which incorporates the effects of projected salary increases, based on service earned at the valuation date. The measure is intended to provide information regarding the Plan's funded status on an ongoing-concern basis, progress made in accumulating sufficient assets to pay benefits when due, and comparability to other plans.

<b>Funded Status</b>	<b>July 1, 2003</b>	<b>July 1, 2004</b>
(a) Pension Benefit Obligation		
i) retirees, disabled members and beneficiaries receiving benefits and deferred vested members not yet receiving benefits	\$ 2,050,708,101	\$ 2,407,211,965
ii) active members	<u>3,045,861,033</u>	<u>3,086,227,102</u>
iii) total pension benefit obligation	\$ 5,096,569,134	\$ 5,493,439,067
(b) Net assets available for benefits (actuarial value)	<u>4,952,902,870</u>	<u>5,118,011,165</u>
(c) Unfunded Pension Benefit Obligation/(Reserve)	\$ 143,666,264	\$ 375,427,902
(d) Funded percentage on actuarial value of assets: (b)÷(a)(iii)	97.2%	93.2%

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**EXECUTIVE SUMMARY**

**5. Benefit Accrual Cost**

The cost of benefits accruing over an active member's working career can be expressed as a level percentage of compensation or a level dollar amount. This cost represents the true cost of accruing benefits since it is not adjusted for any overfunding or underfunding which may exist on the valuation date. It is determined using the Entry Age Actuarial Cost Method and is also called the Normal Cost. The level benefit accrual cost determined during the current and prior valuation dates are as follows:

<b>Formula Annuity Benefit</b>	<b>July 1, 2003</b>	<b>July 1, 2004</b>
(a) Benefit accrual cost amount:	\$ 136,752,185	\$ 140,713,706
(b) Annual compensation before assumed normal retirement age:	\$ 1,200,135,565	\$ 1,233,275,898
(c) Benefit accrual cost rate as a level percentage of compensation (a) ÷ (b):	11.395%	11.410%

<b>Service Annuity Benefit</b>	<b>July 1, 2003</b>	<b>July 1, 2004</b>
(a) Service Annuity Benefit		
(i) NPERS members	\$ 2,434,247	\$ 2,421,610
(ii) Omaha members	<u>415,282*</u>	<u>409,493*</u>
(iii) Total	\$ 2,849,529	\$ 2,831,103
(b) Number of active members before assumed retirement age		
(i) NPERS members	36,485	36,020
(ii) Omaha members	<u>6,339</u>	<u>6,279</u>
(iii) Total	42,824	42,299
(c) Benefit accrual cost per active member as a level dollar amount [(a) ÷ (b)]		
(i) NPERS members	\$ 66.72	\$ 67.23
(ii) Omaha members	\$ 65.51	\$ 65.22
(iii) Total	\$ 66.54	\$ 66.93

\*determined as of September 1, 2002 and 2003, respectively.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**EXECUTIVE SUMMARY**

**6. Forecast of Disbursements**

A forecast of the annual benefit disbursements expected over the next thirty years is presented in Exhibit 7. This forecast is based on the same actuarial assumptions with respect to salary increases and decrement rates used to determine the funding requirements. The forecast should be a useful guide in discussing the cash-flow needs of the system with investment managers and in projecting the future financing needs of the system.

**7. Actuarial Methods and Assumptions**

The required contributions developed in this report are estimates of the amounts necessary to provide ongoing benefits to plan members assuming the system is funded in a systematic manner. These estimates are based upon the actuarial method defined under State Statutes to allocate the total cost of the plan to various years and actuarial assumptions regarding the return on investments, salary rates, employee termination rates, mortality rates and other risk factors.

The actuarial method used to determine the actuarial contribution requirement necessary to fund current and future benefits is the Entry Age Actuarial Cost Method. A description of this method can be found in Exhibit 9.

The actuarial assumptions represent the expected long-term experience of the system on an explicit basis for each risk area considered. The experience is reviewed periodically. Where necessary, changes are recommended by the actuary and adopted by the Public Employees Retirement Board. Summaries of the actuarial methods and assumptions used in the current valuation are presented in Exhibits 9 and 10, respectively.

**8. Changes Since the Last Actuarial Valuation**

There have been no changes in the actuarial cost method, assumptions, or plan provisions since the last valuation as of July 1, 2003.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

**SYSTEM ASSETS**

<b>A. Summary of Assets</b>	<b>Market Value as of June 30, 2003</b>	<b>Market Value as of June 30, 2004</b>
1. Cash and Equivalents	\$ 3,085,792	\$ 5,986,012
2. Investments	4,216,132,149	4,800,250,174
3. Capital Assets	0	5,825,234
4. Receivables and Prepaids	65,710,242	115,291,844
5. Accounts Payable	(2,886,844)	(9,340,009)
<b>6. Net Assets Considered (1 + 2 + 3 + 4 + 5)</b>	<b>\$ 4,282,041,339</b>	<b>\$ 4,918,013,255</b>

<b>B. Development of Actuarial Value of Assets</b>	<b>Amount</b>
1. Actuarial Value of Assets as of July 1, 2003	\$ 4,952,902,870
2. Unrecognized Return as of July 1, 2003	\$ (670,861,531)
3. Contributions	
(a) Member (includes purchased service)	\$ 88,924,206
(b) Employer	87,310,577
(c) State appropriations	14,154,879
(d) Total (a + b + c)	\$ 190,389,662
4. Benefit Payments (including transfers to Omaha)	\$ 173,370,820
5. Expected Return at 8% on:	
(a) Item 1	\$ 396,232,230
(b) Item 2	(53,668,922)
(c) Item 3(d)	7,469,079
(d) Item 4	6,224,587
(e) Total (a+b+c-d)	\$ 343,807,800
6. Actual Return on Market Value for 2003/2004 Plan Year, net of expenses	\$ 618,953,074
7. Return to be Spread for 2003/2004 Plan Year [6-5(e)]	\$ 275,145,274

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

**SYSTEM ASSETS**

<b>B. Development of Actuarial Value of Assets (cont'd)</b>		<b>Amount</b>																								
8.	Total Market Value of Assets as of July 1, 2004	\$ 4,918,013,255																								
9.	Return to be Spread:																									
	<table border="1"> <thead> <tr> <th><b>Plan Year</b></th> <th><b>Return to be Spread</b></th> <th><b>Unrecognized Percent</b></th> <th><b>Unrecognized Return</b></th> </tr> </thead> <tbody> <tr> <td>2003/2004</td> <td>\$ 275,145,274</td> <td>80%</td> <td>\$ 220,116,219</td> </tr> <tr> <td>2002/2003</td> <td>(114,240,187)</td> <td>60%</td> <td>(68,544,112)</td> </tr> <tr> <td>2001/2002</td> <td>(606,631,726)</td> <td>40%</td> <td>(242,652,690)</td> </tr> <tr> <td>2000/2001</td> <td>(544,586,637)</td> <td>20%</td> <td>(108,917,327)</td> </tr> <tr> <td colspan="3"><b>Total</b></td> <td><b>\$ (199,997,910)</b></td> </tr> </tbody> </table>	<b>Plan Year</b>	<b>Return to be Spread</b>	<b>Unrecognized Percent</b>	<b>Unrecognized Return</b>	2003/2004	\$ 275,145,274	80%	\$ 220,116,219	2002/2003	(114,240,187)	60%	(68,544,112)	2001/2002	(606,631,726)	40%	(242,652,690)	2000/2001	(544,586,637)	20%	(108,917,327)	<b>Total</b>			<b>\$ (199,997,910)</b>	
<b>Plan Year</b>	<b>Return to be Spread</b>	<b>Unrecognized Percent</b>	<b>Unrecognized Return</b>																							
2003/2004	\$ 275,145,274	80%	\$ 220,116,219																							
2002/2003	(114,240,187)	60%	(68,544,112)																							
2001/2002	(606,631,726)	40%	(242,652,690)																							
2000/2001	(544,586,637)	20%	(108,917,327)																							
<b>Total</b>			<b>\$ (199,997,910)</b>																							
10.	<b>Total Actuarial Value of Assets at July 1, 2004</b> <b>(8 - 9)</b>	<b>\$5,118,011,165</b>																								

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

**SYSTEM ASSETS**

<b>C. Change in Asset Values During 2003/2004</b>	<b>Actuarial Value</b>	<b>Market Value</b>
1. Total asset value as of July 1, 2003	\$ 4,952,902,870	\$ 4,282,041,339
2. Contributions for 2003/2004:		
(a) Member contributions paid during the year	\$ 88,924,206	\$ 88,924,206
(b) Employer contributions paid during the year	87,310,577	87,310,577
(c) State appropriations for the year**	<u>16,642,031</u>	<u>16,642,031</u>
(d) Contributions for 2003/2004: (a) + (b) + (c)	\$ 192,876,814	\$ 192,876,814
3. Disbursements for 2003/2004:		
(a) Benefit payments*	\$ 173,370,820	\$ 173,370,820
(b) Expenses and fees	13,410,161	13,410,161
(c) Transferred Omaha appropriation	<u>2,487,152</u>	<u>2,487,152</u>
(d) Disbursements for 2003/2004: (a) + (b) + (c)	\$ 189,268,133	\$ 189,268,133
4. Investment return for 2003/2004:	\$ 161,499,614	\$ 632,363,235
5. Total asset value as of July 1, 2004: [1 + 2(d) - 3(c) + 4]	\$ 5,118,011,165	\$ 4,918,013,255
6. Approximate rate of investment return, net of expenses	3.0%	14.6%

\*Includes transfers to Omaha for service annuities.

\*\*Includes Omaha appropriation.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

**ACTUARIAL CONTRIBUTION REQUIREMENT**

<b>A. Development of Actuarially Required Funding Rate</b>	<b>July 1, 2004</b>
1. Actuarial present value of benefits	
(a) Active members	\$ 4,503,211,133
(b) Inactive members	283,514,983
(c) Retired members, disabilities and beneficiaries	<u>2,123,696,982</u>
(d) Total	\$ 6,910,423,098
2. Present Value of Future Normal Costs	<u>1,042,156,128</u>
3. Total Actuarial Accrued Liability [1(d) - 2]	\$ 5,868,266,970
4. Net Actuarial Value of Assets	<u>5,118,011,165</u>
5. Unfunded Actuarial Accrued Liability [3 - 4]	\$ 750,255,805
6. Annual Contribution to Amortize Unfunded Actuarial Accrued Liability Bases (see page 6)	
(a) Amount	\$ 68,606,137
(b) Amount as % of Pay	5.56%
7. Annual Normal Cost	
(a) Amount	\$ 140,713,706
(b) Amount as % of Pay	11.41%
8. Total Annual Actuarially Required Contribution	
(a) Amount [6(a) + 7(a)]	\$ 209,319,843
(b) Amount as % of Pay	16.97%

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**ACTUARIAL CONTRIBUTION REQUIREMENT**

<b>B. Development of Additional State Contributions for 2005/2006</b>	<b>Annual Amount as a % of Pay</b>
1. Actuarially Required Contribution	
a. Amount	\$ 209,319,843
b. State PPSF appropriation	<u>5,639,235</u>
c. Net amount [(a)-(b)]	203,680,608
d. Net Amount as % of Pay	16.52%
2. Statutory Contribution Rates	
a. Employee Contribution Rate	7.25%
b. Employer Contribution Rate	7.32%
c. State Contribution Rate	<u>.70%</u>
d. Total Contribution Rate [(a) + (b) + (c)]	15.27%
3. Additional Required State Contribution	
a. Additional Required State Contribution Rate [1(d)-2(d), not less than 0%]	1.25%
b. Additional Required State Contribution Amount	\$ 15,415,949

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
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**ACTUARIAL CONTRIBUTION REQUIREMENT**

<b>C. Schedule of Amortization Bases</b>	<b>Original Amount</b>	<b>July 1, 2004 Remaining Payments</b>	<b>Date of Last Payment</b>	<b>Outstanding Balance as of July 1, 2004</b>	<b>Annual Contribution</b>
1. 2002 Initial Unfunded Actuarial Accrued Liability base	\$ 256,078,100	23	07/01/2027	\$ 248,792,201	\$ 23,083,507
2. 2003 Unfunded Actuarial Accrued Liability Base	259,094,742	24	07/01/2028	255,550,642	23,355,434
3. 2004 Unfunded Actuarial Accrued Liability Base	245,912,962	25	07/01/2029	<u>245,912,962</u>	<u>22,167,196</u>
<b>Total</b>				<b>\$ 750,255,805</b>	<b>\$ 68,606,137</b>

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**ACTUARIAL (GAIN)/LOSS**

<b>A. Change in Actuarial Accrued Liability</b>		
1.	Actual Actuarial Accrued Liability as of July 1, 2003	\$ 5,464,572,876
2.	Benefits accrued during the 2003/2004 plan year	136,752,185
3.	Benefit payments during the 2003/2004 plan year*	173,370,820
4.	Interest at 8%	<u>436,306,098</u>
5.	Expected Actuarial Accrued Liability as of July 1, 2004 (1 + 2 - 3 + 4)	\$ 5,864,260,339
6.	Decremental (Gain)/Loss by Source:	
	(a) Retirement	\$ 10,934,162
	(b) Termination	9,797,255
	(c) Disability	407,786
	(d) Pre-retirement mortality	2,387,835
	(e) Post-retirement mortality	(3,295,187)
	(f) Salary	(31,499,943)
	(g) New entrants	18,172,678
	(h) Retiree Cola	(4,308,656)
	(i) Data changes/miscellaneous	<u>1,410,701</u>
	(j) Total decremental (gain)/loss	\$ 4,006,631
7.	Change in Actuarial Assumptions	\$ 0
8.	Change in Plan Provisions	0
9.	Actual Actuarial Accrued Liability as of July 1, 2004 (5 + 6(j) + 7 + 8)	\$ 5,868,266,970

\* Excludes transfer to Omaha.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**ACTUARIAL (GAIN)/LOSS**

<b>B. Change in Net Actuarial Value of Assets</b>	<b>Amount</b>
1. Total Actuarial Value of Assets as of July 1, 2003	\$ 4,952,902,870
2. Contributions	
(a) Member	\$ 88,924,206
(b) Employer	87,310,577
(c) State appropriation*	<u>14,154,879</u>
(d) Total	\$ 190,389,662
3. Benefit Payments*	\$ 173,370,820
4. Expected Return at 8% on:	
(a) Item 1	\$ 396,232,230
(b) Item 2(d)	7,469,079
(c) Item 3	<u>6,224,587</u>
(d) Total (a) + (b) - (c)	\$ 397,476,722
5. Expected Total Actuarial Value of Assets at June 30, 2004 [1 + 2(e) - 3 + 4(d)]	\$ 5,367,398,434
6. Actual Total Actuarial Value of Assets at June 30, 2004	5,118,011,165
7. Actuarial (Gain)/Loss on Asset Sources (5 - 6)	\$ 249,387,269

\* Excludes transfers to Omaha.

<b>C. Total Actuarial (Gain)/Loss for the 2003/2004 plan year [A(6)(j) + B(7)]</b>	<b>\$ 253,393,900</b>
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**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

**ACTUARIAL BALANCE SHEET**

<b>A. Financial Resources</b>	<b>July 1, 2004</b>
1. Total Actuarial Value of Assets	\$ 5,118,011,165
2. Present Value of Future Contributions	
(a) Member	\$ 654,399,210
(b) Employer	660,717,547
(c) State	63,183,372
(d) State PPSF Appropriations	<u>29,359,944</u>
(e) Total	1,407,660,073
3. Actuarial Liability/(Reserve)	384,751,860
4. Total Assets [1 + 2(e) + 3]	\$ 6,910,423,098

<b>B. Benefit Obligations</b>	<b>July 1, 2004</b>
1. Present Value of Future Benefits	
(a) Active members	\$ 4,488,784,370
(b) Inactive members	283,049,255
(c) Retirees, disabilities and beneficiaries	2,123,666,839
(d) Omaha	
(i) active	14,426,763
(ii) deferred vested	465,728
(iii) retired	<u>30,143</u>
(e) Total	\$ 6,910,423,098

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

**ACCOUNTING INFORMATION**

**A. Pension Benefit Obligation under the Projected Unit Credit Cost Method.**

	July 1, 2003	July 1, 2004
<b>Pension Benefit Obligation (PBO):</b>		
Vested PBO		
(a) members currently receiving payments	\$ 1,777,141,788	\$ 2,123,696,982
(b) other members		
(i) accumulated member contributions	1,248,296,837	1,253,038,425
(ii) employer financed vested	<u>1,942,921,792</u>	<u>1,985,241,209</u>
Total Vested PBO	\$ 4,968,360,417	\$ 5,361,976,616
Nonvested PBO	<u>128,208,717</u>	<u>131,462,451</u>
Total PBO	\$ 5,096,569,134	\$ 5,493,439,067
Total Actuarial Value of Assets	<u>4,952,902,870</u>	<u>5,118,011,165</u>
Unfunded Pension Benefit Obligation (Reserve)	\$ 143,666,264	\$ 375,427,902
Funded Percentage		
(a) on vested PBO	99.7%	95.5%
(b) on total PBO	97.2%	93.2%

**B. Change in Pension Benefit Obligation from July 1, 2003 to July 1, 2004**

<b>Pension Benefit Obligation at July 1, 2003</b>	\$ 5,096,569,134
Increase/(Decrease) during Period:	
Plan Provision Changes	\$ 0
Assumption Changes	0
Benefits Accumulated	166,350,755
Benefits Paid*	(173,370,820)
Interest Cost	414,809,005
Plan Experience	<u>(10,919,007)</u>
Total Change	\$ 396,869,933
<b>Pension Benefit Obligation at July 1, 2004</b>	\$ 5,493,439,067

\* Excludes transfer to Omaha.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

**ACCOUNTING INFORMATION**

Exhibit 9 and 10 provide a more detailed summary of the underlying actuarial methods and assumptions used in the calculations of the Pension Benefit Obligation. The benefits valued are those in effect on July 1, 2004 and 2003, respectively, as outlined in Exhibit 8. The determination of the Pension Benefit Obligation has been made in accordance with generally accepted actuarial principles and practices.

**C. Schedule of Contributions from Employers and other Contributing Entities - Disclosure Requirements under GASB No. 25**

Plan Year Ending	Annual Required Contributions*			Percentage Contributed
	School	State	Total	
June 30, 2004	\$ 87,310,577	\$ 14,154,879	\$ 101,465,456	100%
June 30, 2003	84,467,330	13,119,888	97,587,218	100%
June 30, 2002	80,288,662	12,659,281	92,947,943	100%
June 30, 2001	77,062,544	12,225,219	89,287,763	100%
June 30, 2000	69,990,565	11,948,451	81,939,016	100%
June 30, 1999	65,672,654	11,853,757	77,526,411	100%

\* Includes funding for the Excess Formula Annuity, the Service Annuity, and supplemental funds. Excludes Omaha appropriations.

**D. Actuarial Assumptions, Method and Additional Information under GASB No. 25**

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age
Amortization Method	Level dollar amount, closed
Equivalent Single Amortization Period	24 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Investment rate of return*	8.0%
Projected salary increases*	4.5% - 10.5%
*Includes inflation at	3.5%
Cost-of-living adjustment	2.5% with a floor benefit equal to 75% purchasing power of original benefit

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

**ACCOUNTING INFORMATION**

**E. Schedule of Funding Progress under GASB No. 25**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Accrued Liabilities (UAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAL as a % of Covered Payroll [(b-a)/c]</b>
June 30, 2004	\$ 5,118,011,165	\$ 5,868,266,970	\$ 750,255,805	87.2%	\$ 1,170,601,127	64.1%
June 30, 2003	4,952,902,870	5,464,572,876	511,670,006	90.6	1,138,776,241	44.9
June 30, 2002	4,799,789,893	5,055,867,993	256,078,100	94.9	1,065,515,857	24.0
June 30, 2001	1,486,008,665	1,704,201,512	218,192,847	87.2	995,348,331	21.9
June 30, 2000	1,348,542,467	1,526,061,507	177,519,040	88.4	933,339,432	19.0
June 30, 1999	1,129,546,860	1,345,494,742	215,947,882	84.0	893,801,152	24.2

The Schedule of Funding Progress prior to June 30, 2002 excluded liabilities and assets for the Excess Formula Annuity benefit because funding for this benefit was based on the Aggregate Actuarial Cost Method. As of June 30, 2002, per LB 407, the cost method was changed to the Entry Age Actuarial Cost Method for the total Formula Annuity, and thus, from June 30, 2002 forward, the Schedule of Funding Progress under GASB No. 25 includes total liabilities and assets for the School Retirement System.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

**SUMMARY OF MEMBER DATA**

<b>A. Active Members</b>	<b>July 1, 2003</b>	<b>July 1, 2004</b>
1. Number of Active Members		
(a) Before assumed retirement age	36,485	36,020
(b) Beyond assumed retirement age	294	333
(c) Total	36,779	36,353
2. Annual Considered Compensation*		
(a) Before assumed retirement age	\$ 1,200,135,565	\$ 1,233,275,898
(b) Beyond assumed retirement age	4,009,364	4,704,097
(c) Total	\$ 1,204,144,929	\$ 1,237,979,995
3. Accumulated Contributions	\$ 1,104,132,350	\$ 1,106,539,348
4. Active Member Averages		
(a) Age	45.5	45.6
(b) Service	11.6	11.7
(c) Compensation	\$ 32,740	\$ 34,054
(d) Accumulated Contributions	\$ 30,021	\$ 30,439
<b>B. Inactive Members</b>		
1. Number of inactive members	14,531	15,245
2. Accumulated member contributions	\$ 144,164,487	\$ 146,499,077
3. Inactive member averages		
(a) Age	50.7	51.0
(b) Accumulated member contributions	\$ 9,921	\$ 9,610
<b>C. Retired Members and Beneficiaries</b>		
1. Number of members		
(a) System retirees	11,837	12,730
(b) Omaha retirees	3	3
2. Annual benefits - regular		
(a) System retirees	\$ 134,743,457	\$ 158,736,647
(b) Omaha retirees	3,319	3,319
(c) Total	\$ 134,746,776	\$ 158,739,966
3. Annual benefits-supplemental		
(a) System retirees	\$ 9,539,610	\$ 17,366,965
(b) Omaha retirees	0	0
(c) Total	\$ 9,539,610	\$ 17,366,965

\*Prior year pay is increased by the salary scale for each member. Total prior year compensation for 2003 and 2004 was \$1,138,776,241 and \$1,170,601,127, respectively.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

**SUMMARY OF MEMBER DATA**

**D. Distribution of Retired Members and Beneficiaries as of July 1, 2004**

Age Range	Number	Annual Benefit	Average Annual Benefit
59 & Under	1,094	\$ 29,380,454	\$ 26,856
60-64	2,070	43,226,814	20,883
65-69	2,692	42,028,642	15,612
70-74	2,457	28,873,237	11,751
75-79	1,839	17,768,386	9,662
80-84	1,243	8,846,043	7,117
85-89	801	3,918,272	4,892
90 & Over	534	2,061,764	3,861
Total	12,730	\$ 176,103,612	13,834

Does not include three Omaha retirees.

**E. Member Data Reconciliation**

	Active Members	Inactive Members			Total
		With Deferred Benefits	Terminated with Balance	Retired Members and Beneficiaries	
As of July 1, 2003	36,779	5,203	9,328	11,840	63,150
Changes in status					
a) Normal & early retirements	(1,118)	0	0	1,118	0
b) Became payable	0	(149)	(23)	172	0
c) Deaths	(46)	(13)	(17)	(442)	(518)
d) Nonvested terminations	(1,344)	0	1,344	0	0
e) Vested terminations	(562)	562	0	0	0
f) Contribution refunds	(844)	(162)	(715)	0	(1,721)
g) Beneficiaries in receipt	0	0	0	121	121
h) Disability retirements	(20)	0	0	20	0
i) Return to active service	377	(141)	(236)	0	0
j) Expired benefits	0	0	0	(113)	(113)
k) Data corrections	(4)	0	(5)	(10)	(19)
Total changes in status	(3,561)	97	348	866	(2,250)
New entrants					
a) Without prior service	2,776	0	256	6	3,038
b) With prior service	359	1	12	21	393
Total new members	3,135	1	268	27	3,431
Net change	(426)	98	616	893	1,181
As of July 1, 2004	36,353	5,301*	9,944	12,733*	64,331

\*Includes 385 Omaha deferred vested members and 3 Omaha retired members eligible for a service annuity benefit.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

**SUMMARY OF MEMBER DATA**

**F. Reconciliation Between Data Submitted By NPERS and Valuation Data**

	<b>Active Members</b>	<b>Inactive Members</b>	<b>Retired Members, Beneficiaries, and Disabled</b>	<b>Total</b>
Number of Data Records Submitted By NPERS	36,643	14,766	12,702	64,111
Additions				
a) 2004 Active	75	10	5	90
b) 2003 Balance Only	-	108	-	108
c) 2003 Deferred Vested	-	26	-	26
d) 2003 Retired	-	-	24	24
Total Additions	75	144	29	248
Subtractions				
a) Also Listed as Deaths	(2)	-	-	(2)
b) Also Listed as Inactives or Retirees	(293)	(44)	-	(337)
c) Also Listed as Contribution Refunds	(5)	-	-	(5)
d) Benefits Expired	-	-	-	-
e) Not a member	(65)	(1)	-	(66)
f) Also Listed as Active	-	(5)	(1)	(6)
Total Subtractions	(365)	(50)	(1)	(416)
Net change	(290)	94	28	(168)
Number of Members Included in the Valuation as of July 1, 2004	36,353	14,860	12,730	63,943

Does not include Omaha retirees or inactives.



**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

**SUMMARY OF MEMBER DATA**

**G. Age and Service Distribution of Active Members as of July 1, 2004**

Age Last Birthday		0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34	Total
15-19	Number	45								45
	Total Salary	\$ 394,962								\$ 394,962
	Average Salary	\$ 8,777								\$ 8,777
20-24	Number	951	9							960
	Total Salary	\$ 21,008,366	\$ 171,931							\$ 21,180,297
	Average Salary	\$ 22,091	\$ 19,103							\$ 22,063
25-29	Number	2,314	715	2						3,031
	Total Salary	\$ 68,122,607	\$ 26,180,000	\$ 53,975						\$ 94,356,582
	Average Salary	\$ 29,439	\$ 36,615	\$ 26,987						\$ 31,131
30-34	Number	1,367	1,627	460	1					3,455
	Total Salary	\$ 32,560,740	\$ 61,935,275	\$ 20,320,000	\$ 24,409					\$ 114,840,424
	Average Salary	\$ 23,819	\$ 38,067	\$ 44,174	\$ 24,409					\$ 33,239
35-39	Number	1,357	835	1,140	425					3,757
	Total Salary	\$ 27,960,453	\$ 27,701,830	\$ 49,960,668	\$ 20,001,382					\$ 125,624,333
	Average Salary	\$ 20,605	\$ 33,176	\$ 43,825	\$ 47,062					\$ 33,437
40-44	Number	1,748	1,099	737	1,030	459	5			5,078
	Total Salary	\$ 32,849,505	\$ 29,007,980	\$ 28,730,013	\$ 48,552,132	\$ 22,560,619	\$ 205,191			\$ 161,905,439
	Average Salary	\$ 18,793	\$ 26,395	\$ 38,982	\$ 47,138	\$ 49,152	\$ 41,038			\$ 31,884
45-49	Number	1,426	1,148	867	690	928	723	1		5,783
	Total Salary	\$ 26,666,141	\$ 29,928,069	\$ 30,183,527	\$ 28,585,499	\$ 45,573,474	\$ 37,660,226	\$ 59,958		\$ 198,656,894
	Average Salary	\$ 18,700	\$ 26,070	\$ 34,814	\$ 41,428	\$ 49,109	\$ 52,089	\$ 59,958		\$ 34,352
50-54	Number	976	859	989	938	678	1,314	823	1	6,578
	Total Salary	\$ 19,753,168	\$ 22,267,348	\$ 32,059,693	\$ 37,258,317	\$ 30,984,180	\$ 69,345,005	\$ 45,798,718	\$ 48,708	\$ 257,515,137
	Average Salary	\$ 20,239	\$ 25,922	\$ 32,416	\$ 39,721	\$ 45,699	\$ 52,774	\$ 55,649	\$ 48,708	\$ 39,148
55-59	Number	717	550	631	761	611	617	594	233	4,714
	Total Salary	\$ 14,836,311	\$ 14,640,594	\$ 20,475,511	\$ 29,834,521	\$ 26,498,637	\$ 30,956,073	\$ 33,149,718	\$ 12,831,029	\$ 183,222,394
	Average Salary	\$ 20,692	\$ 26,619	\$ 32,449	\$ 39,204	\$ 43,369	\$ 50,172	\$ 55,808	\$ 55,069	\$ 38,868
60-64	Number	411	287	273	305	286	196	100	127	1,985
	Total Salary	\$ 7,565,551	\$ 6,293,932	\$ 7,570,212	\$ 9,541,228	\$ 10,426,694	\$ 7,984,633	\$ 5,567,681	\$ 7,418,644	\$ 62,368,575
	Average Salary	\$ 18,408	\$ 21,930	\$ 27,730	\$ 31,283	\$ 36,457	\$ 40,738	\$ 55,677	\$ 58,415	\$ 31,420
65-69	Number	400	183	111	123	58	51	13	28	967
	Total Salary	\$ 4,579,051	\$ 3,087,077	\$ 2,037,918	\$ 3,164,343	\$ 1,433,097	\$ 1,604,919	\$ 622,629	\$ 1,385,923	\$ 17,914,958
	Average Salary	\$ 11,448	\$ 16,869	\$ 18,360	\$ 25,726	\$ 24,709	\$ 31,469	\$ 47,895	\$ 49,497	\$ 18,526
TOTAL	Number	11,712	7,312	5,210	4,273	3,020	2,906	1,531	389	36,353
	Total Salary	\$ 256,296,854	\$ 221,214,036	\$ 191,391,517	\$ 176,961,831	\$ 137,476,702	\$ 147,756,047	\$ 85,198,704	\$ 21,684,304	\$ 1,237,979,995
	Average Salary	\$ 21,883	\$ 30,254	\$ 36,735	\$ 41,414	\$ 45,522	\$ 50,845	\$ 55,649	\$ 55,744	\$ 34,054

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

**FORECAST OF EXPECTED DISBURSEMENTS**

<b>Plan Year Ending June 30</b>	<b>Active Employees</b>	<b>Retired and Disabled Members and Beneficiaries</b>	<b>Total</b>
2005	\$ 14,684,904	\$ 180,028,667	\$ 194,713,571
2006	34,334,697	182,356,536	216,691,233
2007	56,732,070	184,479,352	241,211,422
2008	82,475,805	186,403,858	268,879,663
2009	111,137,312	187,965,287	299,102,599
2010	142,986,199	189,439,612	332,425,811
2011	177,288,769	190,705,165	367,993,934
2012	213,787,645	191,673,309	405,460,954
2013	252,235,367	191,906,895	444,142,262
2014	292,792,053	191,453,459	484,245,512
2015	\$ 334,273,244	\$ 190,691,722	\$ 524,964,966
2016	375,895,583	189,627,099	565,522,682
2017	417,441,636	188,047,279	605,488,915
2018	459,395,412	185,930,839	645,326,251
2019	501,940,796	183,356,679	685,297,475
2020	544,681,515	180,472,264	725,153,779
2021	587,496,671	177,342,541	764,839,212
2022	630,929,727	173,840,960	804,770,687
2023	674,799,286	169,766,749	844,576,035
2024	717,830,310	165,148,819	882,979,129
2025	\$ 760,547,623	\$ 160,016,521	\$ 920,564,144
2026	802,254,817	154,341,679	956,596,496
2027	843,720,900	148,190,506	991,911,406
2028	884,116,058	141,565,250	1,025,681,308
2029	924,050,163	134,588,127	1,058,638,290
2030	964,977,522	127,182,717	1,092,160,239
2031	1,003,634,801	119,541,497	1,123,176,298
2032	1,041,751,564	111,608,944	1,153,360,508
2033	1,081,187,500	103,817,390	1,185,004,890
2034	1,116,640,903	96,041,025	1,212,681,928

**Note:** These amounts exclude distributions for vested inactive members eligible to receive future benefit payments. Benefit amounts for these members have not yet been determined.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

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**SUMMARY OF PLAN PROVISIONS**

<b>Member</b>	Any person employed by a public school 15 or more hours per week and age 21 by August 15 preceding the school year shall be a member of the system. Employees at the date of establishment could have elected not to participate, and those covered under another system do not participate.
<b>Participation Date</b>	Date of becoming a member.
<b>Definitions</b>	
Final average earnings	The average of the highest three fiscal years after July 1, 1968 of pensionable pay during the period ending on the earlier of the participant's termination date or retirement date. For employees who become a member on or after July 1, 1996, earnings will be capped at the maximum earnings defined in Code 401(a)(17).
Fiscal year	Twelve month period ending June 30.
Member contributions	As of July 1, 2004, members contribute at a rate equal to 7.25% of pensionable pay. The School Districts contribute at a rate equal to 101% of the members' rate, or 7.32% of pensionable pay. Such contributions are credited with interest in accordance with State Statutes.
Monthly pension benefit	The greater of (1) or (2). <ul style="list-style-type: none"> <li>(1) Amount: A monthly benefit equal to the sum of: <ul style="list-style-type: none"> <li>(a) A savings annuity which is the actuarial equivalent of the member's accumulated contributions, and</li> <li>(b) A service annuity equal to \$3.50 per year of service.</li> </ul> </li> </ul>

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

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**SUMMARY OF PLAN PROVISIONS**

- (2) Amount: Members employed by a class I, II, III, IV, or VI School District may receive a formula annuity. The formula annuity is a monthly amount equal to the product of 2.00% of final average earnings times total years of service for those members who are employed on or after July 1, 2001.

To receive this benefit, retirement must occur after meeting the Rule of 85 requirements (minimum age 55) or attaining age 65.

An automatic annual cost-of-living adjustment (COLA) equal to the CPI-W index, with a maximum increase of 2.5% in any one year is provided for current and future retirees. Also provided is a minimum floor benefit equal to 75% of the purchasing power of the original benefit.

Normal Retirement Date (NRD)	First of month coinciding with or next following the attainment of age 65.
Service	Length of service includes all service as a school employee for which contributions have been made. This service only includes years for which the member was employed on at least a half-time basis, and includes declared emergency service in the armed forces, provided certain conditions are met. Special provisions allow credit for service prior to 1945 and for up to ten years of service in another State upon payment of the actuarial cost of the additional benefit granted.
Pensionable pay	Gross earnings subject to contributions.

**Eligibility for Benefits**

Deferred vested	Termination for reasons other than death or disability retirement after completing five years of service.
Disability retirement	Retirement by reason of disability.
Early retirement	Retirement before NRD and on or after both attaining age 60 and completing five years of service, or attaining 35 years of service regardless of age, or attaining age 55 and age plus service equals at least 85 (Rule of 85).
Normal retirement	Retire on NRD.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

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***SUMMARY OF PLAN PROVISIONS***

Postponed retirement	Retire after NRD.
Pre-retirement spouse benefit	Death prior to retirement.

**Monthly Benefits Paid Upon the Following Events**

Normal retirement	Monthly pension benefit determined as of NRD.
Early retirement	Monthly pension benefit determined as of early retirement date, reduced by 3% for each year that commencement of payment precedes age 65 (member must be age 60 with five years of service). Unreduced benefits are available to members who have attained age 55 and whose age plus service is greater than or equal to 85. Benefits payable upon retirement prior to age 60 (based on the 35 year service rule) are actuarially reduced from age 65.
Postponed retirement	Monthly pension benefit determined as of actual retirement date.
Termination with deferred vested benefit	Monthly pension benefit determined as of termination date, reduced by 3% for each year that commencement of payment precedes age 65 (Early Commencement requires attainment of age 60).
Disability retirement	Monthly pension benefit determined as of disability retirement date.
Death with pre-retirement benefits	Survivor portion of 100% Joint and Survivor Annuity paid to spouse assuming retirement by member at death if the member is age 65 or has 20 years of service at death. If the member has met the 5-year vesting service requirement, has less than 20 years of service and is under age 65, the spouse may choose between the following two options:  <ol style="list-style-type: none"><li>(1) a lump sum equal to the member's contributions with interest plus 101% of the member's contributions with interest, and</li><li>(2) an annuity which equals the survivor portion of the 100% Joint and Survivor value of the member's accrued benefit, payable immediately, reduced for commencement before age 65 and the 100% joint and survivor form of payment.</li></ol>

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

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***SUMMARY OF PLAN PROVISIONS***

Forms of payment	Pre-retirement death benefits are payable only as described above.  Monthly pension benefits are paid under the form of payment elected by the retiree at retirement. Payment forms include: life annuity, five year certain and life annuity, 100% joint and survivor annuity (spouse only), 10-year certain and life annuity, 15-year certain and life annuity, or a modified cash refund annuity.
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**Funding Arrangement**

Pursuant to LB 407 enacted in 2002, the School Retirement Fund is created. Balances existing on June 30, 2002 in the School Employers Deposit Account, the School Employees Savings Account, the Service Annuity Account, the Annuity Reserve Account, and the School Employees Retirement System Reserve Fund (RSRF) shall be combined and transferred into the School Retirement Fund.

There are four funds established in the State Treasury, which receive monies and pay the expenses and benefits of the retirement system, as follows:

1. School Retirement Fund – receives required deposits of the employers, the State, and employees. Upon retirement, the fund pays all savings annuities, service annuities, and formula annuities.
2. Contingent Account - receives all interest, dividends, and miscellaneous income, pays all regular interest allocated to the other accounts or funds, and meets any deficiencies occurring in the other accounts or funds.
3. Expense Fund - pays all expenses connected with the operation and administration of the system, and receives annual contributions to cover anticipated expenses.
4. Retired Teachers Supplementary Benefits Fund - pays certain supplemental benefits.

***NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS***  
***SCHOOL SYSTEM***

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***SUMMARY OF PLAN PROVISIONS***

**State Appropriation**

LB 700, passed in 1996, established a separate fund to provide for cost-of-living benefit adjustments to members ceasing employment on or after April 10, 1996. The COLA increases are 0.3% per year, beginning six years after retirement. This benefit is funded by State contributions. Beginning with the 1996-97 fiscal year, the funding shall be 81.7873% of \$6,895,000 or \$5,639,235 annually, for each year through the 2010-11 fiscal year.

**Benefits Reflected in Valuation**

All benefits were valued, including future cost-of-living increases as provided for by LB 674 and LB 711.

**Plan Provisions Effective after July 1, 2004**

No future changes in plan provisions were recognized in determining the GASB 25 funded status and in determining the actuarial soundness of statutory contribution levels.

**Changes in Plan Provisions since Prior Year**

There have been no changes in plan provisions since the July 1, 2003 valuation.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

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**SUMMARY OF ACTUARIAL METHODS AND PROCEDURES AS OF JULY 1, 2004**

**A. ACTUARIAL METHODS**

- 1. Calculation of Normal Cost and Actuarial Accrued Liability:** The method used to determine the normal cost and actuarial accrued liability was the Entry Age Actuarial Cost Method described below.

**Entry Age Actuarial Cost Method**

Projected pension and preretirement spouse's death benefits were determined for all active members under age 70. Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year from the assumed entry age to the assumed retirement age were applied to the projected benefits to determine the normal cost (the portion of the total cost of the plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members under age 70 and determining an average normal cost rate which is then related to the total payroll of active members under age 70. The actuarial assumptions shown in Exhibit 10 were used in determining the projected benefits and cost factors. The actuarial accrued liability for active members (the portion of the total cost of the plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for retired members and their beneficiaries currently receiving benefits, active members age 70 and over, terminated vested members and disabled members not yet receiving benefits was determined as the actuarial present value of the benefits expected to be paid. No normal costs are now payable for these members.

The actuarial accrued liability under this method at any point in time is the theoretical amount of the fund that would have been accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of plan assets measured on the valuation date. The initial unfunded actuarial accrued liability established July 1, 2002 is amortized with a level dollar payment amount over 25 years. At subsequent valuation dates, amortization bases equal to changes in the unfunded actuarial accrued liability are established and amortized with a level dollar payment over a 25-year period. If the unfunded actuarial accrued liability is \$0 or less on the valuation date, all previous amortization bases are considered fully amortized.

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL SYSTEM**

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***SUMMARY OF ACTUARIAL METHODS AND PROCEDURES AS OF JULY 1, 2004***

- 2. Calculation of the Actuarial Value of Assets:** The actuarial value of assets is based on a five-year smoothing method and is determined by spreading the effect of each year's investment return in excess of or below the expected return. The Market Value of assets at the valuation date is reduced by the sum of the following:
- (i) 80% of the return to be spread during the first year preceding the valuation date.
  - (ii) 60% of the return to be spread during the second year preceding the valuation date.
  - (iii) 40% of the return to be spread during the third year preceding the valuation date.
  - (iv) 20% of the return to be spread during the fourth year preceding the valuation date.

The return to be spread is the difference between (1) the actual investment return on Market Value and (2) the expected return on Actuarial Value. The Actuarial Value is determined using the total assets of the System, and is then allocated on a pro-rata basis to each reserve fund and account using Market Value. Effective July 1, 2000, the expected return on Actuarial Value includes interest on the previous year's unrecognized return.

- 3. Calculation of Pension Benefit Obligation:** The method used to determine the Pension Benefit Obligation was the Projected Unit Credit Actuarial Cost Method without service proration. Under this method, the benefit is based on salary projected to assumed termination or retirement and service as of the valuation date.

***NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS***  
***SCHOOL SYSTEM***

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***SUMMARY OF ACTUARIAL METHODS AND PROCEDURES AS OF JULY 1, 2004***

**B. VALUATION PROCEDURES**

No actuarial liability is included for participants who terminated without being vested prior to the valuation date, except those due a refund of contributions.

The compensation amounts used in the projection of benefits and liabilities for active members were prior plan year compensations increased one year with the salary scale. Compensation for new members with under a year of service were annualized by dividing reported salary by the portion of year worked.

In computing accrued benefits, average compensation was determined by applying the salary scale assumption to most recent compensation to construct any missing salary history.

Projected benefits were limited by the dollar limitation required by the Internal Revenue Code Section 415 as it applies to governmental plans and compensation limited by Section 401(a)(17).

There were approximately 505 active participants with missing dates of birth or gender codes. They were assumed to be age 34 (the average entry age for the group as a whole) and gender codes were randomly assigned in the ratio 75% female/25% male.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JULY 1, 2004**

**ECONOMIC ASSUMPTIONS**

- 1. Investment Return 8% per annum, compounded annually, net of expenses.
- 2. Inflation 3.5% per annum, compounded annually.
- 3. Salary Increases Rates vary by age.  
Sample ages are as follows:

Age	Rate
20	10.30%
25	9.10%
30	8.00%
35	7.10%
40	6.40%
45	5.80%
50	5.30%
55	5.00%
60	4.70%
65+	4.50%

- 4. Interest on Employee Contributions 5.5% per annum, compounded annually.

**DEMOGRAPHIC ASSUMPTIONS**

- 1. Mortality
  - a. Healthy lives - active and retired members and beneficiaries 1994 Group Annuity Mortality Table, with two year setback.
  - b. Disabled lives 1971 Group Annuity Mortality Table, without setback.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
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**SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JULY 1, 2004**

c. Mortality rates under the mortality tables are shown below at sample ages:

Sample Age	Mortality Rate			
	Healthy Members		Disabled Members	
	Males	Females	Males	Females
30	.08%	.03%	.08%	.05%
40	.09	.06	.16	.09
50	.21	.12	.53	.22
60	.63	.34	1.31	.55
70	1.99	1.18	3.61	1.65
80	5.02	3.17	8.74	5.61

d. Life expectancies under the mortality tables are shown below at sample ages:

Sample Age	Life Expectancy (Years)			
	Healthy Members		Disabled Members	
	Males	Females	Males	Females
30	51.7	56.2	45.6	51.0
40	42.1	46.4	36.0	41.3
50	32.5	36.8	26.9	31.8
60	23.5	27.4	18.8	23.5
70	15.7	18.9	11.9	15.3
80	9.4	11.6	7.0	8.9

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
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**SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JULY 1, 2004**

2. Retirement:

Rates vary by age and eligibility for benefits.  
Rates are as follows:

<b>Retirement Rates When Eligible for Unreduced Benefits</b>		
<b>Age</b>	<b>Male</b>	<b>Female</b>
55	20%	20%
56	20%	20%
57	22%	22%
58	25%	25%
59	28%	28%
60	35%	35%
61	30%	30%
62	40%	40%
63	30%	30%
64	30%	30%
65	35%	35%
66	25%	25%
67	20%	20%
68	20%	20%
69	20%	20%
70	100%	100%

<b>Retirement Rates When Eligible for Reduced Benefits</b>		
<b>Age</b>	<b>Male</b>	<b>Female</b>
60	6%	6%
61	6%	6%
62	18%	18%
63	14%	14%
64	10%	10%

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
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**SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JULY 1, 2004**

3. Termination:

Rates vary by age and service, and are derived by taking the product of the select multiplier and the ultimate rate. Select multipliers are applied by service and ultimate rates are applied by age. Sample rates are as follows:

<b>Select Multipliers by Service:</b>	
<b>Years of Service</b>	<b>Multiplier</b>
1 <sup>st</sup>	2.00
2 <sup>nd</sup>	1.50
3 <sup>rd</sup>	1.25
4 <sup>th</sup> or more	1.00

<b>Ultimate Rates by Age</b>		
<b>Age</b>	<b>Rate</b>	
	<b>Male</b>	<b>Female</b>
25	11.4%	14.2%
30	9.4%	11.7%
35	7.5%	9.4%
40	5.7%	7.1%
45	4.7%	5.9%
50	4.5%	5.7%
55	5.0%	6.2%
60	15.5%	19.4%

4. Disability:

Rates vary by age. Sample rates are as follows:

<b>Age</b>	<b>Rate</b>
25	.00%
30	.00%
35	.06%
40	.06%
45	.12%
50	.18%
55	.27%
60	.36%

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL SYSTEM**

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***SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JULY 1, 2004***

**OTHER ASSUMPTIONS**

- |   |  |
|---|--|
| 1. Form of Payment:                             | Service annuity - Life annuity<br>Formula annuity - Five year certain and life annuity.  |
| 2. Marital Status                               |  |
| a. Percent married                              | 85% married  |
| b. Spouse's age                                 | Females assumed to be three years younger than males.  |
| 3. Administrative Expense                       | Investment return is assumed to be net of expenses.  |
| 4. Commencement age for deferred vested benefit | Age 62.  |
| 5. Cost of Living Adjustment                    | Service annuity – none<br>Formula annuity – 2.5% per annum, compounded annually, and 3.5% per annum, compounded annually, after reaching 75% purchasing power floor benefit. |

NOTE: There have been no changes in the actuarial assumptions since the last actuarial valuation of the system as of July 1, 2003.